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THE QUARTO GROUP, INC.

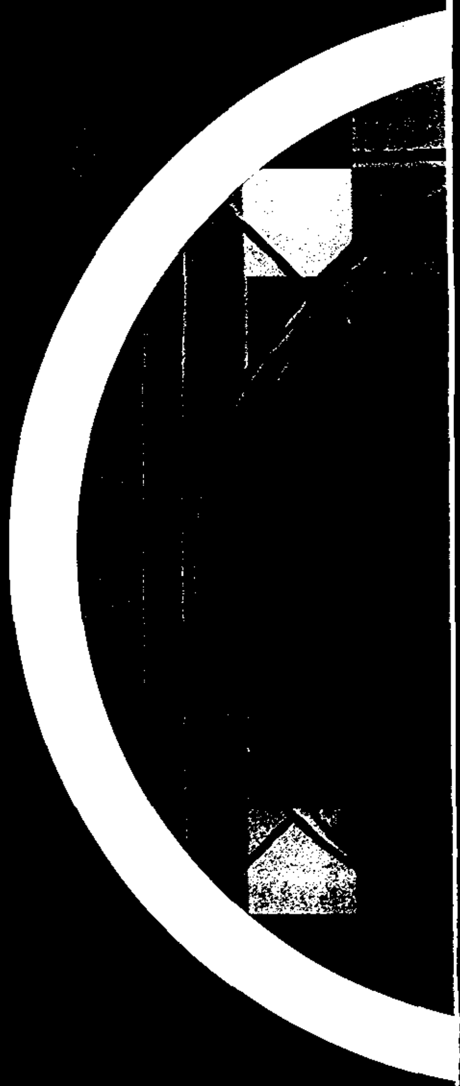
SALES

PROFIT BEFORE TAXATION
AND EXCEPTIONAL COSTS

DIVIDENDS

EARNINGS PER SHARE

CONTENTS



GROUP ACTIVITIES 1998

INTERNATIONAL CO-EDITION PUBLISHING
SALES £38.1 MILLION

Quarto is one of the world's leading producers of co-edition books. We have particularly strong representation in instructional how-to areas, including arts and crafts, cooking, hearth and home, and the growing category of mind, body and spirit. Our titles are licensed to publishers around the world who market and distribute the books under their own imprints, often in translation. We arrange the manufacturing, and keep control over the exploitation of these important intellectual property rights. In retail terms our books had *a global sales value in 1998 of more than £150 million.* We sold books to publishers in more than 35 different countries.

The main operating units in the UK are **Quarto Publishing, Quintet, Quarto Children's Books,** and our backlist specialist **Quantum. Design Eye** principally publishes children's books. **Rockport,** based in the USA, and **RotoVision,** in Switzerland, both produce books for professionals in the graphic and commercial arts fields.

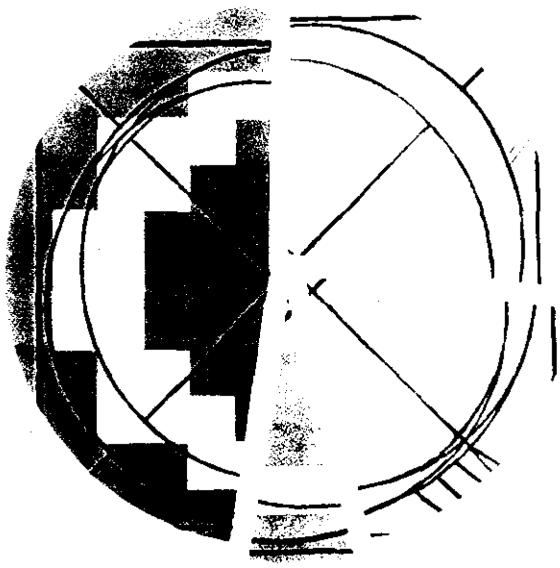
GROUP REVENUES 1998

CO-EDITION PUBLISHING **48%**

BOOK PUBLISHING **29%**

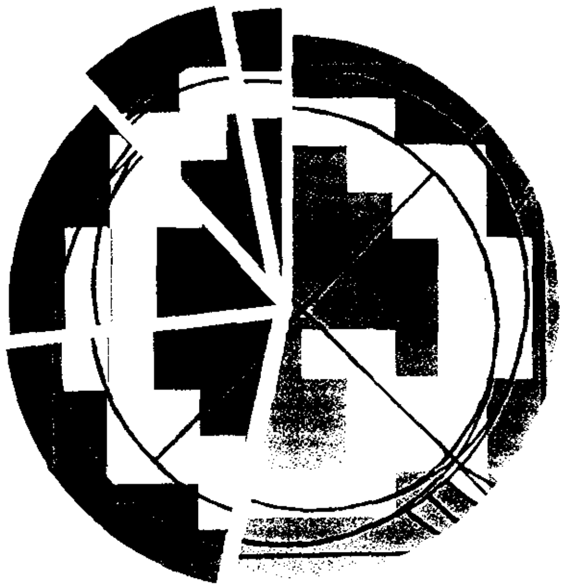
PUBLISHING SERVICES **15%**

ART PUBLISHING **8%**



1998 SALES BY MARKET

- NORTH AMERICA **55%**
- EUROPE **19%**
- UNITED KINGDOM **16%**
- FAR EAST AND AUSTRALASIA **8%**
- REST OF WORLD **2%**



BOOK PUBLISHING

SALES £22.6 MILLION

This division comprises five operating units. In the USA, **Book Sales** operates as a promotional publisher, selling most of its books through bookstores. **Broughton Hall** is a directory publisher, based in California and selling via inbound telemarketing. **Walter Foster** is America's leading publisher of art instruction books that are sold primarily through arts and craft stores. Based in the UK, **Apple** is a trade book publisher, and the *Artist's and Illustrator's Magazine* is published for the amateur and semi-professional audience.

PUBLISHING SERVICES

SALES £12.0 MILLION

Regent Publishing based in Hong Kong, handles pre-press and printing needs in the region for Group and non-Group customers. **ProVision** operates in similar fashion from Singapore, with particular emphasis on the needs of graphic arts publishers. **AP Screenprinters** and **Western Screen & Sign**, both located in the UK, are involved in producing displays for the retailing sector.

ART PUBLISHING

SALES £6.5 MILLION

Operating through three publishing units, **Scafa/Modern Art**, **Front Line Graphics**, and **Artworks**, the division publishes a broad range of open and limited edition images. The prints are sold predominantly to framing companies. The division also has a distribution arm, **Parmur**, based in Australia.

CHAIRMAN'S LETTER

The best way to describe 1998 is as a challenging year. There were solid achievements in three of our four divisions, with profits increasing, but the Art Publishing division did not respond to the medicine we administered, with sales falling, and losses increasing.

The Co-edition Publishing division operated in a generally buoyant market for books. It was also a very competitive market, and we did very well to improve our margins and profits during the period. This was achieved despite the very serious impact on us of a decimated Asian market. Our Book Publishing division, operating mostly in the United States, focussed on stock management in 1998. We have been keen to reduce the amount of investment tied up in stocks and are pleased that we substantially met our objectives for stock turn and cash generation. The Publishing Services division had another good year.

The disappointment was in the performance of the Art Publishing division. Intrinsically, this is a sound and profitable division. We have faced personnel issues that, in turn, led to poor publishing decisions. Both of these problems have been addressed. There is now clear focus on better images, and we expect a return to profitability in 1999.

I can report a small increase in profits on slightly reduced sales. For the year ended 31st December 1998, the Board is recommending an unchanged final dividend of 2.3p net, making a total for the year of 4.5p net, payable on 5 May 1999 to shareholders on the register at 6 April 1999.

There were important changes in the composition of your Board in 1998. After many years of involvement, Eric de Bellaigue announced his retirement as a non-executive director. We are very grateful for his guidance and good humour over the years. Peter Campbell and Peter Waine both joined as non-executive directors during the year. On the executive side there were changes, too. Harvey Goldstein's position as President of Quarto, North America, was eliminated, and he resigned from the company. Geoff Banks stepped down from the Board to concentrate on running an operating unit. Towards the end of the year, I announced the appointment of Terry Hancock as Chief Operating Officer of the Group, and his appointment to the Board. These are the visible signs of the maturing of the company, with the Board concentrating on overall direction and strategy. I welcome these important developments and am grateful for the input of our outside directors.

The Board has stressed its determination to develop our publishing strengths. The involvement in Publishing Services is no longer central to our publishing strategy. The Publishing Services division continues to perform well, and to provide benefits to our individual operating units. We support the division's ambitious plans for growth, recognizing that there may well come a time when these activities would be better carried on by others.

Reducing Group debt levels has been a major objective. We did not quite achieve our targets in 1998 because of the poor performance of our most cash-generative division, Art Publishing. Despite this, we managed to implement the first stage of the share buy-back program that shareholders approved last year. The buy-back of 750,000 shares in December was a good investment by the company, and will be followed as conditions allow.

Towards the end of November, Broughton Hall, our directory publishing subsidiary based in California, became embroiled in a regulatory investigation into the telemarketing business. Broughton Hall sells relatively low-cost directories to consumers. Its business practices have barely changed in the many, many years it has been in operation, and we are satisfied that they are conducted responsibly. However the complaints against Broughton Hall are being taken seriously and as part of our effort to resolve this with the authorities without litigation we have discontinued our operations pending a resolution. Prior to the discontinuation of operations at the end of November, it made pre-tax profits of £0.3m and had net assets of £0.54m. The impact on the Group numbers as a whole, therefore, is not substantial. The exceptional item relates to the quantifiable costs of the discontinuation of business and the associated legal expenses. I shall report further in due course.

Although debt levels remain higher than we would like, they are comfortably within our banking covenants. During 1999 we shall make further progress in reducing debt by concentrating more specifically on improving stock turn. We achieved this successfully in 1998 with Book Sales, and we are now extending the disciplines that we introduced there more widely within the Group. By taking a less accommodating approach to consistently underperforming activities, we shall refocus our management attention on those with the greatest potential for growth.

The growth of Internet commerce, the continued dominance of ever-larger retail chains, with growing superstores, and other changes in the publishing field, have all helped us to refine our future strategy. We have relied very heavily in 1998 on the vitality of our backlists, and these performed very well for us, even in art print publishing, where there was a dearth of good, new imagery published. We believe that this can continue, particularly in Book Publishing, provided that we retain our strong focus on self-improvement titles. This is a world in which rising living standards are the norm, and these require higher levels of skill, and greater sophistication. Servicing these needs is our continuing mission.

The prospects for the publishing industry are good. The greater availability of books in retail outlets, the explosive growth of on-line retailers, such as Amazon.com, all testify to the investment and vitality in the industry. With the changes we have made over the last two years, and the anticipated return to profitability within the art print business, I am confident that we shall improve our competitive position in 1999.

Laurence F. Orbach
Chairman and Chief Executive
London, February 16, 1999

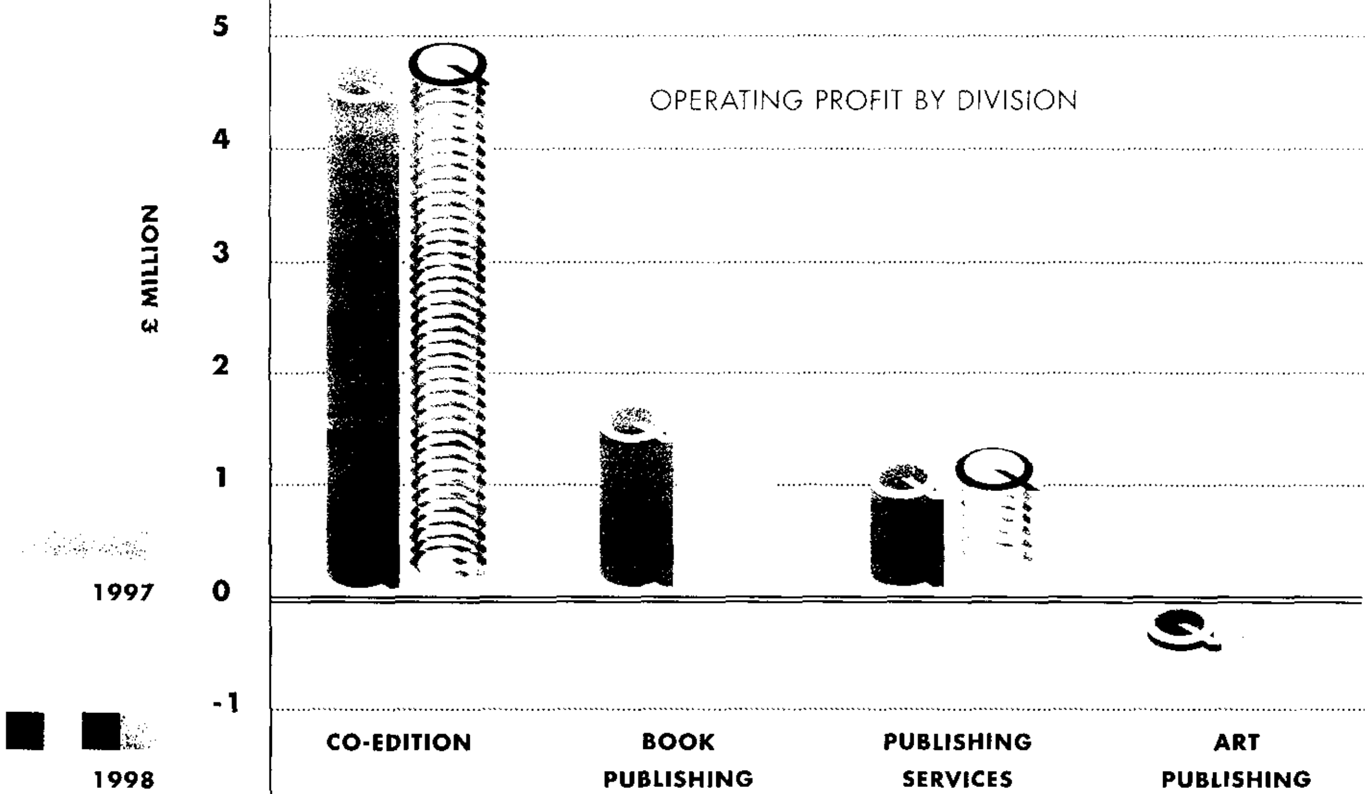
GROUP OPERATING REVIEW

1998 was, on balance, a year of progress. Despite setbacks in our smallest division, Art Publishing, continued unhelpful currency alignments and economic difficulties in some of our smaller markets, most of our units improved their profits.

With the exception of Art Publishing, all divisions delivered higher operating profits. In Europe and the USA, our largest markets, and where we made 90% of our sales, the trading environment was stable. Group sales in the year ended 31st December 1998 reduced by 3% to £79.2m. Sales at constant currency rates in 1998 were £80.5m.

We remain committed to our emphasis on cost and margin controls, which are central to our continued success. We were very successful in 1998 in negotiating reduced priority prices across the Group.

More detail on each of the Group's operating units is given on pages 10 to 19.



A SUMMARY OF OPERATING PERFORMANCE BY DIVISION IS GIVEN BELOW;

	£000	**1998**		1997		
	SALES	**OPERATING PROFIT**		SALES	OPERATING PROFIT	
CO-EDITION PUBLISHING	**38,128**	**4,859**	**(12.7%)**	39,415	4,675	(11.9%)
BOOK PUBLISHING	**22,585**	**1,913**	**(8.5%)**	23,487	1,671	(7.1%)
PUBLISHING SERVICES	**11,990**	**1,222**	**(10.2%)**	10,670	1,048	(9.8%)
ART PUBLISHING	**6,453**	**[588]**	**(-)**	8,248	[105]	(-)
GROUP OVERHEAD	**-**	**[1,196]**	**(-)**	-	[1,106]	(-)
TOTAL	**79,156**	**6,210**	**(7.8%)**	81,820	6,183	(7.6%)

OPERATING PROFITS

Group operating profits were ahead at £6.21m (1997: £6.18m). Operating margins improved to 7.8% [1997: 7.6%]. In our largest divisions, Co-edition Publishing and Book Publishing, which together account for over three quarters of Group turnover, combined operating profits grew to £6.77m [1997: £6.35m].

Co-edition operating profits grew in overall terms by 4%. The dramatic slowdown in Far Eastern markets impacted on our professional publishing units severely, and held back a greater level of underlying growth. Book Publishing posted a healthy 14% rise in operating profits. In both divisions operating margins improved, Co-edition to 12.7% [1997: 11.9%] and Book Publishing to 8.5% [1997: 7.1%]. It remains our objective to achieve an operating margin of 15% in our Co-edition business and a 10% return on sales in Book Publishing operations. A number of individual units achieved these targets.

Publishing Services recorded higher operating profits of £1.22m [1997: £1.05m] and improved operating margins of 10.2% [1997: 9.8%]. The businesses adjusted successfully to the changed trading environment in the Far East. Art Publishing operating losses rose from £.11m in 1997 to £.59m in 1998, as the division went through a process of complete restructuring.

SALES

Co-edition Publishing sales were £38.1m [1997: £39.4m] and reflect the substantial impact of the Asian downturn. Book Publishing sales fell to £22.6m [1997: £23.5m]. In both divisions we have resisted pressures to grow sales through reducing margin. We recognise the profound impact of a low inflation environment but prefer to address this by strengthening our operating efficiency, growing reprint volumes, and improving the quality of our frontlist. Our business model is predicated on books earning an overall return on investment over at least a 3 year period.

Sales of the Publishing Services division grew by 12% to £12.0m, [1997:£10.7m] as our print-broking businesses successfully extended their third-party customer bases. Art Publishing sales were £6.5m [1997: £8.2m], reflecting the restructuring of those businesses, and their reduced publishing programmes.

GROSS MARGINS

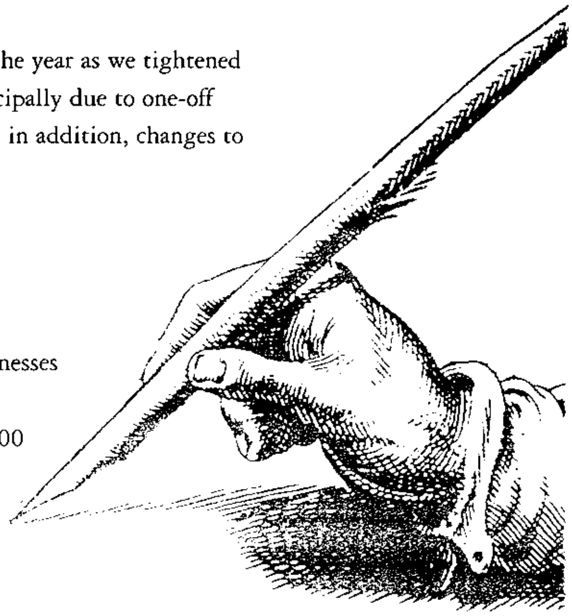
Gross margins rose across the Group as a whole. Tight control of printing and production costs in the co-edition businesses helped. Book Publishing gross margins rose following the earlier decision to improve inventory turn at Book Sales, even though this depressed returns initially.

Gross margins were ahead at Publishing Services as the division expanded in a very competitive market. An additional factor for the division was the decision to reduce overheads, leading to better operating margins overall.

Art Publishing gross margins slipped to under 50%. Margin improvements here will be driven by the success of our restructuring and the market reception for our new publishing programmes.

OVERHEADS

Underlying Group overheads and headcount fell, a trend that accelerated during the year as we tightened internal efficiencies. Group overheads rose slightly to £1.2m (1997: £1.1m) principally due to one-off expenses relating to the costs associated with our 5 year syndicated financing and, in addition, changes to the composition of the Board.



YEAR 2000

We completed a review of all major computer systems and equipment in our businesses and have confirmed either directly or with manufacturers/suppliers that they are suitably compliant. Where critical or date dependent systems have failed year 2000 diagnostic tests they have been replaced or upgraded. All of the Group's major suppliers have been required to confirm that they are Year 2000 compliant.

INTERNATIONAL CO-EDITION PUBLISHING

o-edition Publishing remains the Group's core activity and is the largest of the four operating divisions. International Co-edition Publishing operating profits in 1998 were £4.86m [1997: £4.68m] on sales of £38.1m [1997: £39.4m]. Operating margins in 1998 increased to 12.7% [1997: 11.9%]. Our target remains to raise operating margin to 15% of sales.

Over the years our co-edition businesses have operated as a content powerhouse, producing a stream of well produced, attractive books. Our expertise in numerous subject areas, and overall book creation skills, mean that we can operate across both narrow specialised areas and for the general consumer market. We tailor our products for the international marketplace.

Because copyright remains with us, the material we produce can be repackaged in many different ways to be exploited in new markets and channels. We believe that this content-based part of our business has been consistently undervalued [nor is it represented in our balance sheet]. Our active backlist exceeds 2,000 titles. By spreading development costs over several markets and customers, and printing only when direct costs are covered, the business has low financial risk compared with other forms of consumer publishing. We do not carry inventory risk, and 60% of titles have extended reprint lives. Our publishing ideas are exposed to the immediate disciplines of the market. Ideas and subjects lacking interest [ie a buyer] are quickly discarded. Our books are rarely on the best-seller lists, being steady, backlist sellers, but, nevertheless, our co-edition operating margins are in the upper echelon of the industry.

Quarto Publishing is the Group's original business, founded in 1976. It is known for its authoritative art and design instructional titles. It also produces a large range of how-to books in areas such as crafts, gardening, health, and lifestyle. The list is renowned for the quality and style of its books. We took the decision last year to broaden the appeal of the Quarto list and produced a more diverse and interesting programme of titles. *The Star Guide to Sex* sold 85,000 copies in its first year of publication and followed hot on the heels of the hugely successful *Mix & Match Astrology*. The move into reference titles has also been a success and gives us a platform for future growth. The launch of the new practical art and craft series, *2 Books in 1*, has been well received by general publishers in all markets.

The Quintet list is aimed at more general audiences, and has been repositioned away from its promotional origins. This has attracted new customers in both US and European markets. Better titles are selling at higher prices and improving margins. Exciting new titles and the continued strong performance of the *Fridge Fun*™ series, delivered a 12% increase in turnover. At the same time, Quintet maintained its business with traditional promotional book clients with superior quality "value" titles. *The American Bar & Cocktail Book*, *The Kids Party Planner*, *Holistic Home*, and *Simply Pottery* were immediate successes, delivering confirmed co-editions and reprints in their launch season.

Numerous titles were developed from material to which Quintet holds the copyright, produced at comparatively low cost, contributing high margins, and maintaining competitive pricing: the co-edition model working at its best.

The *Fridge Fun*™ series forged ahead, selling over 1.7 million copies in 17 countries around the world, underscoring its versatility and appeal. We have recently won new orders from a number of major consumer goods companies for customised titles to be used as promotional items. Quintet's list has strong potential for growth in 1999 with encouraging forward orders for new offerings in a wide range of subjects including sports, history, and popular culture.

Quarto Children's Books has a good track record for producing a wide range of innovative interactive titles and kits for children of all ages. Turnover in 1998 was £5m [1997: £6.7m]. Our ability to produce books with enduring market appeal continues to be in evidence with sales of our pre-school learning series *Fit a Shape* now exceeding 3 million units.

We worked hard on improving internal processes. These have caused problems in the past because of the complicated nature of many of the titles. We have not yet surmounted all of the difficulties. We are working hard to overcome these problems. Quarto Children's operates in the same segment as Design Eye, our other, hugely successful, business specialising in children's books. We know that the issues being addressed are ones that we can resolve. We understand the business, the market, and our own problems.

At Design Eye, to emphasise this point, sales grew 12%, exceeding £10m for the first time. This was despite a move of premises and a reduction in the number of new titles. The business has become a market leader in extending instructional book formats into fully functioning interactive starter kits.

Design Eye's major successes include the *Let's Start* series for younger children. Over 1.5 million copies have been sold since launch. We plan to produce numerous derivatives from this series, with the same sales potential. Other notable milestones were the launch of the adult range of *Craft Boxes* and our *Science Lab* series, both of which have been well received and ordered strongly. Supported by a strong initial order book, we expect sales and profits to move further forward during 1999.

Quantum was established four years ago to improve the exploitation of our extensive backlist. Continued progress was seen during the year as the company recorded new highs in terms of sales and profits.

Both Rotovision and Rockport had difficult years. Sales were down 20% overall as a direct result of market conditions in Asia. In both these companies, where the print runs are small and the margins are high, the effect of lower sales is profound.

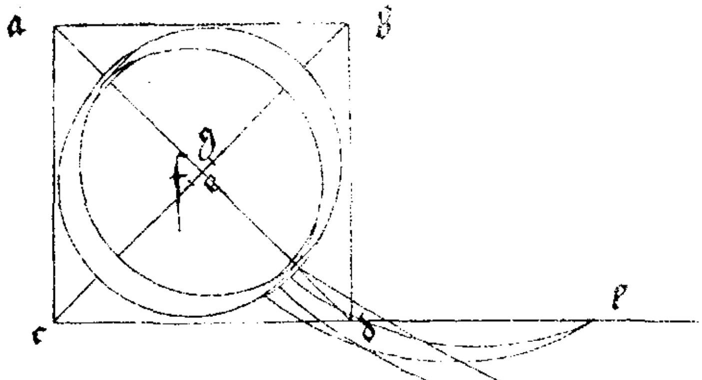
On the other hand, Rotovision's educational titles, including the newly launched *Better Picture Guides*, have broader appeal and they continued to do well, especially in Europe, where sales rose nearly 30%. The 1999 publishing programme is particularly strong, and we have received encouraging responses from our co-edition partners and customers around the world. We will be investing further in exploiting our valuable backlist and have rebuilt and refocused the sales team to that end. We are confident that sales and profits will move upwards during 1999.

In 1997, 30% of Rockport's sales were in Asian markets. Inevitably, these declined considerably in 1998. Our response to these problems has been prompt. We have reduced overhead, and concentrated on markets that have more immediate growth potential. We have been actively developing a vigorous new front list and launched a number of new development initiatives in areas where we have proven strength - packaged goods design, linked design/computer titles, and so on.

PROSPECTS

As book superstores and supermarkets flex their muscles, some traditonal retailers in the book industry are under pressure to meet the demands of the newly competitive marketplace. The overall outlook for books is good. Recent research indicates that by 2001 global book sales will be 17% higher in real terms than in 1997. Furthermore, well over half of our books are no longer sold through traditional bookshop channels. Instead they go through a range of new outlets including supermarkets, online booksellers, specialist book clubs, direct selling, and speciality retailers.

Our co-edition businesses have broad exposure to many of these markets. During the year we sold books in over 35 countries, and our books were translated into over 25 languages.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he Book Publishing division increased operating profits in the year ended 31st December 1998 to £1.9m [1997: £1.7m]. Operating margin jumped to 8.5% [1997: 7.1%]. Sales declined by 4% to £22.6m [1997: £23.5m]. Our overall objective is for the business to achieve a 10% return on sales. To achieve this objective and to turn our stock faster is the great challenge for 1999.

Book Sales holds the largest stock of any of our operating units. Our chief focus in 1998 was to increase the stock turn and to generate cash. We achieved both of these objectives, and all our key financial measures were within target. Careful buying, good publishing and pricing decisions, and growing sales to non-traditional and niche outlets all contributed to this, and offset problems with some book chains.

Walter Foster is the leading publisher of instructional art books that are sold in the art and craft market in the USA. Historically a conservative market, there has been considerable consolidation in art and craft retail chains. Walter Foster's books have long shelf lives. In 1998 we commenced work on a new series, designed to replace one that has only been cosmetically updated and augmented over several decades. Walter Foster profits increased by over 15%. The 1999 publishing programme is strong. There are new initiatives in place to develop co-edition titles [some with other Group companies] and expand our joint ventures with specialist art manufacturers and distributors. Prospects are encouraging.

The Artist's & Illustrator's Magazine remains the best selling practical art magazine in the UK. Overall advertising revenue rose and profits for the year improved. Our eleventh annual Fine Art Materials Exhibition attracted more visitors than ever before.

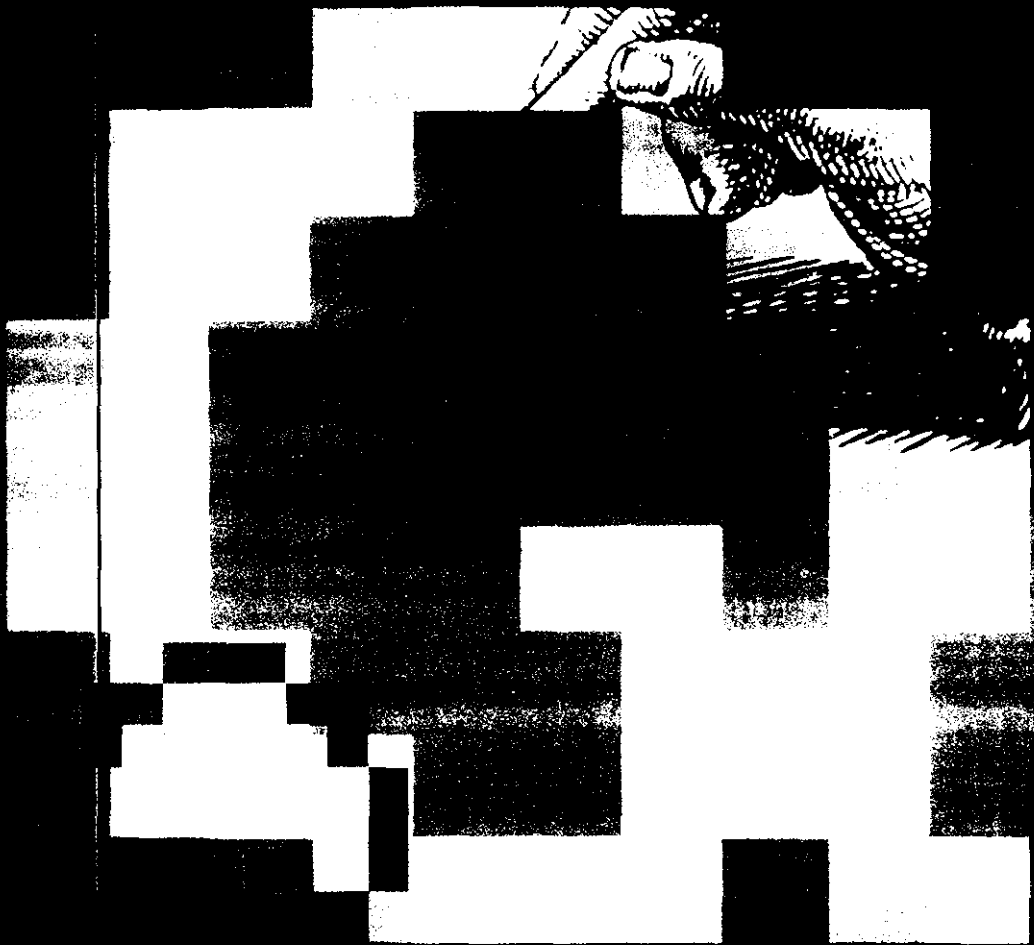
The launch of a children's book range, extension of the *Fridge Fun*™ range, and a dramatic increase in the level of marketing resulted in a very busy year at Apple Press. Turnover rose by over 14% but profits were affected by the decision to reduce stock levels and reinvigorate the sales effort by remaindering slow moving stock. Retail bookselling in the UK is changing rapidly and we have successfully widened our customer base with direct sellers, supermarkets, and other non specialist outlets.

At Broughton Hall, changes in key management allowed the company to deliver net operating profits in line with budget. New directions in media planning and improvements in the range of directories were major contributors to the positive trend. However, near the end of the calendar year, Broughton Hall was pulled into a legal action, resulting in our voluntary decision to discontinue operations pending the outcome.

A common theme for businesses in this sector is the changing landscape of the retail market for books. In the USA, which is furthest down this road, online retailers and book superstores have increased choice and range dramatically, but at the expense of publishers' margin. The result has been to create tough trading conditions for independent booksellers, but conversely to increase accessibility and interest in books as a whole. There has been a proliferation of new sales channels and players. These developments are likely to be repeated elsewhere and, indeed, are already underway in the UK.

Our publishing businesses in the USA have responded very effectively to these changes and, armed with this knowledge and experience, we see no reason to be other than optimistic about the new industry structure that will emerge.

PUBLISHING SERVICES



The results show that the Publishing Services division has continued to expand steadily. Sales in 1998 rose to £12m [1997: £10.7m], and operating profits increased by 17% to £1.22m [1997: £1.05m]. Operating margins rose to 10.2% [1997: 9.8%], achieving divisional financial objectives. Regent is the largest business in the division, with total sales of £7.25m in 1998.

Our two businesses located in Asia, Regent in Hong Kong and ProVision in Singapore, are part of our overall book production machinery. Both operate as pre-press and print-brokers for the Group, and ensure that we obtain good print prices and quality. A first rate support service is an essential component of illustrated book production. Reprographic quality and delivery schedules are critical. As printing technology becomes progressively more efficient it is the co-ordination, quality control, and sourcing aspects of the process where, in practice, most value is added.

We insist that both Regent and ProVision work on an arm's length basis with other Group companies. Over 75% of their business in 1998 was for third party customers. To underpin its growing client base in the USA, Regent has added a new sales office in San Diego to its existing offices in St Louis, San Francisco, and New York.

Singapore and Hong Kong have adapted to the new economic environment, and we have seen more competitive print prices being offered. Regent and ProVision, as service companies trading largely in stable currencies, principally the US dollar, have negligible exposure to local economic problems. With improving regional competitiveness, and continuing expansion of their customer bases, prospects are for further improvements in trading performance.

In the UK there are two publishing services business both printing and preparing point of sale display material for retailers. At AP, the larger of the two businesses, operating profits rose by over 20% and there was an encouraging level of new orders and customers. By contrast, Western experienced flat turnover and poor results. We have cut overheads, improved efficiency levels and put more focus into the sales effort. Early indications are of an encouraging turnaround.

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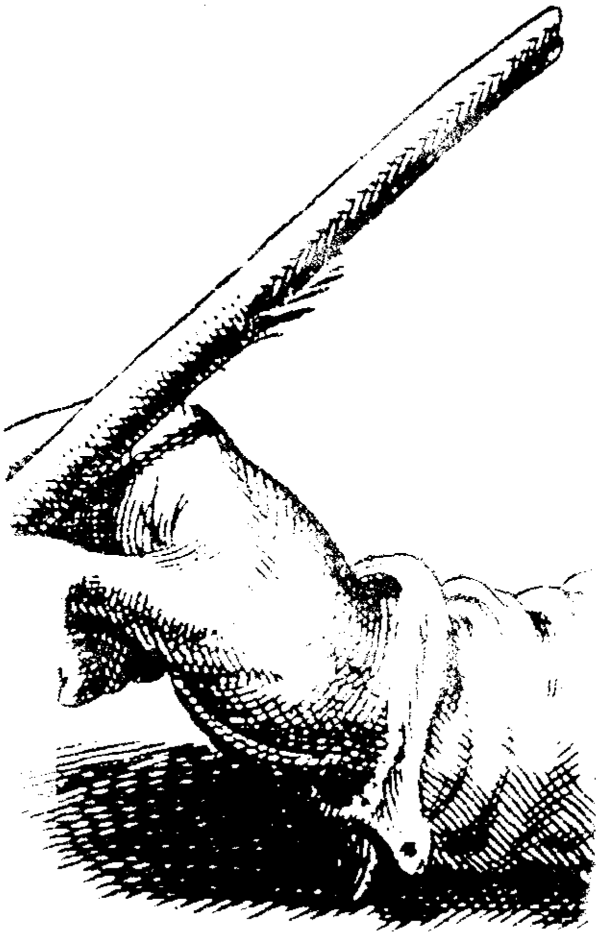

n 1998 sales were £6.5m [1997: £8.2m]. Losses increased to £0.59m [1997: £0.11m]. The management changes we had made in the previous year were not a success. Our product focus was also not strong enough. We conducted a wholesale divisional review and as a consequence took steps to consolidate operations, change the management team, and redirect strategy.

In the USA we have:

Appointed a new CEO at Frontline, effective January 1999.
Reduced overhead costs by consolidating the warehouse, fulfilment, and back office functions of Scafa and Front Line.
Continued to reduce overall inventory levels, eliminating tired and slow moving ranges.
Invested in an exciting and impressive range of new images for launch in Spring 1999.
Reorganised our sales teams.

In Australia, similarly, we have:

Centralised our main warehouse and fulfilment operations in Melbourne .
Relaunched our Australian publishing imprint with a new name, Artworks, and a less traditional range of images. The initial release was well received in the market.
Reduced overheads.

The greater part of the losses and expenses from this realignment are reflected in the results for the division. We have every expectation that, following this restructuring, results will improve in 1999.

Art Publishing, despite the results of the last two years, remains attractive to us. It is right at the heart of our Group-wide focus in the art field, running through all book divisions. We know the businesses can be restored to good health and profitability, and we have put in much of the groundwork to ensure that this happens.

CHIEF FINANCIAL OFFICER'S REPORT

INTEREST

The net interest charge fell slightly to £1,931,000 [1997: £1,941,000] despite the fact that average borrowings during the year were higher than 1997. The lower charge was the result of lower interest rates together with the impact of the improved interest rate margin negotiated on the syndicated banking facility at the end of 1997.

Interest cover remained unchanged at 3.2 times.

TAXATION

The taxation charge on profit before exceptional items was 19.9% [1997: 18.9%]. The Group's tax charge benefits from low tax rates in Hong Kong and Switzerland as well as receiving tax relief on the amortisation of intangible assets in the U.S.

MINORITY INTERESTS

The Group has three trading subsidiaries in which there are minority interests. The increase in the amount of profit attributable to minority shareholders reflects increased profitability at each company.

SHAREHOLDER RETURN

Basic earnings per share rose 40% to 9.8p [1997:7.0p]. Adjusted earnings per share was down slightly at 12.9p [1997: 13.2p] because of a higher tax charge.

The proposed final dividend of 2.3p is unchanged. The total dividend for the year at 4.5p is also unchanged. The basic dividend cover increased 40% to 2.18 times [1997: 1.56 times] whilst adjusted dividend cover fell slightly to 2.86 times [1997: 2.93 times].

CASH FLOW

Net cash flow from operating activities rose 20% to £5.9 million [1997: £4.9 million] reflecting efficient control of working capital. The Group requires a high level of working capital, particularly in the core business activity. Working capital at the two balance sheet dates is summarised below:

	1998	1997
	£m	£m
Stocks and work in progress	30.0	27.8
Trade debtors	26.8	28.7
Trade creditors	(20.8)	(21.4)
Other net liabilities	(1.8)	(1.3)
	34.2	33.8

Working capital as a percentage of sales in 1998 was 43.2% [1997: 41.3%]

Stocks and work in progress represents 7.2 months cost of sales [1997: 6.3 months]. The increase in stocks and work in progress is attributable to lower advances, which is a timing issue, increased inventory levels at our art print business reflecting increased investment in new product and increased work in progress levels at our co-edition business again reflecting increased investment in new product.

Trade debtors represent 3.5 months sales (based on second half sales), unchanged from 1997 (3.5 months).

NET DEBT

Our year end net debt was £23.8 million (1997:£23.7 million comprising £24.5 million noted on the cash flow less £0.8 million of interest bearing debtors). Our total banking facilities at this point were £43.9 million and of this £36.3 million was committed.

TREASURY

The Group's borrowings, liquidity, interest rate and foreign exchange exposures and banking relationships are managed at Group level.

In August 1997 we signed a five year, US $55 million multi-currency revolving credit agreement with a syndicate of banks on both sides of the Atlantic. This facility gives us a very secure basis on which to finance our plans for the future. In addition it reduces our cost of funds. Most of our borrowings are in US dollars, that being the principal operating currency of the Group, and are at variable interest rates.

We are currently operating in a more stable currency environment. I set out below a table showing the average exchange rates for those currencies in which we transact a significant amount of business:

	1998	1997
US Dollar	1.66	1.65
Hong Kong Dollar	12.83	12.68
Swiss Franc	2.40	2.37
Australian Dollar	2.63	2.21
Deutschmark	2.92	2.83
French Franc	9.77	9.54
Dutch Guilder	3.29	3.19

FINANCIAL REPORTING

We have very tight deadlines as we believe that this enables a greater degree of focus to be placed on running the business. It requires a lot of hard work and commitment and I take this opportunity to thank my staff for their continued loyalty and support.

FINANCIAL REVIEW 1998

DIRECTORS AND ADVISERS

DIRECTORS

Laurence Francis Orbach (Chairman and Chief Executive) (USA)

Robert John Morley

Michael John Mousley, ACA

George Tai (Hong Kong)

Terence Hancock

Peter Campbell (Non-executive)

Peter Waine (Non-executive)

SECRETARY

Cyrus Homi Bhote, FCA, MCSE

PRINCIPAL PLACE OF BUSINESS

The Old Brewery, 6 Blundell Street, London N7 9BH

STOCKBROKERS

Collins Stewart & Co

21 New Street, London EC2M 4HR

AUDITORS

KPMG Audit Plc

8 Salisbury Square, London EC4Y 8BB

SOLICITORS

Travers Smith Braithwaite

6 Snow Hill, London EC1A 2AL

REGISTRARS AND TRANSFER OFFICE

IRG plc

Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

PRINCIPAL BANKERS

AIB Bank / First National Bank of Maryland

11-12 Old Jewry, London EC2 8DP

Barclays Bank plc

8 9 Hanover Square, London W1A 4ZW

Fleet Bank

1 Federal Street, Boston, Massachusetts 022110-2010, USA

National Westminster Bank PLC

65 Piccadilly, London W1A 2PP

REGISTERED NUMBER

FCO 13814

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of The Quarto Group Inc., for the year ended 31 December, 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group conducts an international business whose principal activity is the creation and marketing of high quality illustrated books covering a wide range of topics. The Group's activities also embrace publishing services, silkscreen printing, consumer magazines, informational Directories, visual art books and fine art reproductions. A detailed review of the development of the business of the Group is given in the Chairman's Letter and Operational Review on pages 2 to 19.

RESULTS AND DIVIDENDS

The profit for the year after taxation and minority interests amounted to £2,275,000 [1997: £1,766,000]. The Directors propose a final ordinary dividend of 2.3p [1997: 2.3p] per share subject to approval at the Annual General Meeting. The retained profit for the year was £997,000 [1997: £470,000] which has been transferred to reserves.

DIRECTORS

The Directors of the Company, who served as Directors during the year, are as follows:

L. F. Orbach	
R. J. Morley	
M. J. Mousley	
G. Banks	(Resigned 4 June, 1998)
G. T. Y. Tai	
H.Goldstein	(Resigned 6 November, 1998)
E. de Bellaigue (Non-executive)	(Resigned 6 November, 1998)
P. Campbell (Non-executive)	(Appointed 26 March, 1998)
P. Waine (Non-executive)	(Appointed 4 June, 1998)

T. Hancock was appointed on 18 January, 1999.

Educated at Eton College, Peter Campbell started his business career with the Booker Group, holding a number of marketing positions in their United Rum Merchants subsidiary. From 1972 to 1989 he was with the Ocean Group, initially on the sales and marketing side, and from 1987 to 1989, he was the General Manager, UK Operations, for the MSAS subsidiary, with responsibility for 27 locations and 800 staff. Since 1989 he has been involved in management training and development, and is currently a Director of Catalyst Development, a member of the Blueprint Group.

Peter Waine has a wide corporate experience gained as a result of holding executive and non-executive Directorships in a variety of different sectors and with companies both public and private, up to £1 billion turnover. The organisations he has worked for include GEC, Coopers & Lybrand, W.R. Royle, and the CBI. He is the co-founder of Hanson Green, the principal source for non-executive appointments in the UK.

None of the Directors has a service contract of more than one year's duration.

Save as disclosed in Note 23, no Director has had a material interest in any contract of significance with the Company or its subsidiaries during the year.

SHARE CAPITAL

On 16 December, 1998, the Company bought back 750,000 shares of Common Stock at a price of 61.0p. The shares have not been cancelled and are disclosed as Treasury Stock in the financial statements (Refer to note 17).

DIRECTORS' INTERESTS IN SHARES

The Directors who held office at 31 December, 1998 had the following interests in the share capital of the Company.

	Number of US$0.10 shares of common stock	
	31 December, 1998	1 January, 1998
L. F. Orbach*	2,878,413	2,678,413
R. J. Morley	1,504,424	1,304,424
M. J. Mousley	37,000	32,000
G. T. Y. Tai	25,477	25,477
P. Campbell	-	-
P. Waine	-	-

*2,678,413 shares in which L. F. Orbach is interested are owned through his family trusts. The remaining 200,000 are held by the Quarto Publishing plc pension scheme, which is for the benefit of L. F. Orbach and R. J. Morley.

200,000 of the shares in which R. J. Morley is interested are owned through the Quarto Publishing plc pension scheme, which is for the benefit of L. F. Orbach and R. J. Morley.

M. J. Mousley held 5,000 convertible cumulative redeemable shares of preferred stock of par value US$0.10 each at 31 December 1998 (At 1 January, 1998:5,000).

At 1 January, 1998 and 31 December, 1998 L.F.Orbach held options over 50,000 shares at an exercise price of £1.30424. The options are exercisable between 10 April 1995 and 9 April 2002.

During the year the market price of the shares of common stock ranged between 54.0p and 113.5p. The market price at 31 December, 1998 was 60.5p.

Between 31 December, 1998 and 16 February, 1999 there have been no changes in the interests of the Directors.

SUBSTANTIAL SHAREHOLDERS

As at 16 February, 1999 the Directors have been advised of the following shareholders who have an interest of 3% or more in the shares of common stock of the Company:

	Number of US$0.10 Shares of common stock	Percentage
British Gas Pension Fund	618,026	3.3%
Clerical Medical Investment Group	716,132	3.8%
Co-operative Insurance	702,945	3.8%
Finsbury Smaller Companies Trust PLC	705,000	3.8%
Herald Investment Trust	711,642	3.8%
Phillips & Drew Fund Management	1,989,166	10.7%
Prudential Corporation Group of Companies	632,690	3.4%
Schroder Investment Management Limited	1,788,636	9.6%
L.F.Orbach	2,878,413	15.4%
R.J.Morley	1,504,424	8.1%

CORPORATE GOVERNANCE

The Directors have reviewed the governance arrangements of The Quarto Group, Inc. in the context of the Combined Code, issued in June 1998. The principles of the Code have been applied as follows:

a) The Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimising consistent long-term financial returns.

b) The Board comprises five executive Directors and two non-executive Directors. The non-executive Directors, P. Campbell and P. Waine, are both considered by the Board to be independent.

c) The Board meets eight times a year. A formal agenda is prepared for each meeting and all board papers and information are circulated to the Board forty-eight hours before the meetings.

d) The Board as a whole is responsible for the appointment of its own members.

e) All of the Directors are subject to re-election by the shareholders at the Annual General Meeting.
f) The remuneration of the executive Directors is recommended by the Remuneration Committee. A separate report with respect to Directors' remuneration is included below.
g) The Chairman, Chief Operating Officer and Finance Director are responsible for investor relations. Shareholders are invited to attend the AGM at least twenty days in advance of that meeting.
h) The Audit Committee, comprising P. Campbell and P. Waine, meet with the auditors twice a year.

The Group has complied throughout the year with the provisions set out in Section 1 of the Combined Code appended to the Listing Rules of the London Stock Exchange, apart from those listed below. Where non-compliance is reported, this is because the requirement did not itself exist throughout the year or where, in the opinion of the Board, it is not appropriate to change current practice due to the size and constitution of the Board. The provisions of the Combined Code not complied with are as follows:

a) The Chairman of the Company is also the Chief Executive. The Board sees no value in splitting the roles of Chairman and Chief Executive.
b) The Company has two Non-executive Directors, which is considered adequate in view of the overall size of the Board and the requirements of the Company, albeit that the code requires three Non-executive Directors.
c) A formal schedule of matters specifically reserved for the Board is not required, since the Board forms the executive management of the Group.
d) The Company does not have any formal arrangements for Directors, in the furtherance of their duties, to take independent professional advice.
e) The Chairman, P. Campbell, and P. Waine fulfil the role of the Remuneration Committee for Directors.
f) The Audit Commitee comprises two (independent) non-executive Directors, P. Campbell and P. Waine, which the Board believe is sufficient for the size of the Group, albeit that the Code requires at least three.
g) Performance related bonuses are not given.
h) There is no nominated senior non-executive Director.

GOING CONCERN

The Directors, having made enquiries, consider that the Group has adequate resources to continue in operational existence for the forseeable future, and that therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

INTERNAL FINANCIAL CONTROL

The Combined Code, provision D.2.1, requires the Directors to, at least annually, conduct a review of the effectiveness of the Group's system of internal controls and report that they have done so. The Directors have undertaken such a review, but have limited it to the financial internal controls only, as permitted by the London Stock Exchange, until further guidance on the review of non-financial internal controls is issued.
The board of Directors has overall responsibility for the Group's system of internal financial control. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The main elements of the internal financial control system are:

a) The results of individual operating units are reported monthly and reviewed by the Board at its eight board meetings a year.
b) The management accounts of each operating unit are tailored to suit the business and management needs of local management. Each operating unit has its own performance indicators and these are regularly reviewed and assessed.
c) In addition to the monthly reporting, individual operating units report certain management information more frequently where it is considered appropriate.
d) All operating units report their bank balances twice weekly and a report is produced summarising the Group position.
e) The Board and the finance department make frequent visits to all operating units. These visits include a review of the internal financial control system.

DIRECTORS' REMUNERATION

The remuneration committee advises the Board on the remuneration and other terms of employment of executive Directors. With respect to Directors' remuneration the Board report that:

a) Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved.
b) Performance related bonuses are not given.
c) Each Director has a defined contribution personal pension plan.
d) No Director has a service contract of more than one year's duration.
e) Full details of Directors' remuneration and benefits are given in note 2 to the financial statements on page 36.

The remuneration committee is constituted in accordance with relevant provisions of Section B of the Combined Code, save that it does not consist exclusively of non-executive Directors and its terms of reference are not formally documented. The remuneration committee has given full consideration to Section B of the Combined Code Provisions in framing its remuneration policy.

SUPPLIER PAYMENT POLICIES

The Group agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier. At 31 December, 1998, Group creditor days amounted to 93 days [1997: 87 days]. The holding company does not have any trade creditors.

AUDITORS

Our auditors, KPMG Audit Plc, are willing to continue in office and, accordingly, a resolution is to be proposed at the annual general meeting for the reappointment of KPMG Audit Plc as auditors of the Company.

YEAR 2000

The year 2000 issue is one that affects all companies. We aim to ensure that we will be Year 2000 compliant by the third quarter of the current year, although total compliance by this date is dependant upon organisations with whom we trade meeting their targets. The Group incurred costs of approximately £0.1m during 1998 in relation to Year 2000 compliance and we are satisfied that the total future costs will not be material to the profitablility of the Group.

C. H. BHOTE Cyrus H. Bhote
Secretary
16 February, 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF THE QUARTO GROUP, INC.

We have audited the financial statements on pages 28 to 46.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report, as described on page 26 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by Law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 24 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls. We draw attention to the fact that the Directors' review of the system of internal control has been undertaken before formal guidance has been issued as to the scope of such a review and the procedures to be undertaken and may not, therefore, constitute a review for the purpose of the Combined Code as ultimately interpreted.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December, 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
16 February, 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	GROUP **1998** **£000**	1997 £000
TURNOVER	1	79,156	81,820
Cost of sales		(50,665)	(52,838)
GROSS PROFIT		28,491	28,982
Distribution costs		(2,559)	(2,601)
Administration expenses		(19,826)	(20,298)
Other operating income		104	100
OPERATING PROFIT	2	6,210	6,183
Share of loss of associate		(20)	(34)
		6,190	6,149
EXCEPTIONAL ITEM: Loss on discontinued operations	2	(580)	(1,306)
		5,610	4,843
Net interest payable and similar charges	3	(1,931)	(1,941)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,679	2,902
Tax on profit on ordinary activities	4	(849)	(636)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,830	2,266
Minority interests – equity		(555)	(500)
PROFIT FOR THE FINANCIAL YEAR		2,275	1,766
Dividends (including non-equity)	5	(1,278)	(1,296)
RETAINED PROFIT		997	470
EARNINGS PER SHARE	6		
BASIC		9.8p	7.0p
ADJUSTED (EXCLUDING EXCEPTIONAL ITEM)		12.9p	13.2p

BALANCE SHEETS AT 31 DECEMBER 1998

	Notes	GROUP 1998 £000	GROUP 1997 £000	COMPANY 1998 £000	COMPANY 1997 £000
FIXED ASSETS					
Tangible assets	7	6,519	6,539	-	-
Investments	8	-	220	14,833	19,839
		6,519	6,759	14,833	19,839
CURRENT ASSETS					
Stocks and work in progress	9	29,994	27,794	-	-
Debtors	10	29,517	32,082	-	365
Investments	11	1	1	-	-
Cash and deposits	12	5,355	5,470	-	-
		64,867	65,347	-	365
CREDITORS: Amounts falling due within one year	13	(27,281)	(30,349)	(412)	(611)
NET CURRENT ASSETS/(LIABILITIES)		37,586	34,998	(412)	(246)
TOTAL ASSETS LESS CURRENT LIABILITIES		44,105	41,757	14,421	19,593
CREDITORS: Amounts falling due after more than one year	14	(28,496)	(26,693)	-	-
PROVISION FOR LIABILITIES AND CHARGES					
Deferred taxation	15	(1,188)	(1,324)	-	-
NET ASSETS		14,421	13,740	14,421	19,593
CAPITAL AND RESERVES					
Called up share capital	16	1,341	1,341	1,341	1,341
Treasury Stock	17	(461)	-	(461)	-
Reserves – Paid in surplus	18	23,891	23,891	23,891	23,891
– Revaluation		1,018	1,018	-	-
– Profit and loss	19	(13,963)	(14,693)	(10,350)	(5,639)
SHAREHOLDERS' FUNDS		11,826	11,557	14,421	19,593
Equity		6,622	6,353	9,217	14,389
Non-equity		5,204	5,204	5,204	5,204
		11,826	11,557	14,421	19,593
MINORITY INTERESTS – EQUITY		2,595	2,183	-	-
		14,421	13,740	14,421	19,593

The financial statements on pages 28 to 46 were approved by the Board of Directors on 16 February, 1999 and were signed on its behalf by :

M. J. MOUSLEY
Director

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the Year Ended 31 December 1998

	GROUP 1998 £000	GROUP 1997 £000
PROFIT FOR THE FINANCIAL YEAR	2,275	1,766
Currency translation differences on foreign currency net investments	73	(536)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	2,348	1,230

RECONCILIATION OF CONSOLIDATED MOVEMENT IN SHAREHOLDERS' FUNDS

for the Year Ended 31 December 1998

	1998 £000	1997 £000
PROFIT FOR THE FINANCIAL YEAR	2,275	1,766
Dividends	(1,278)	(1,296)
Retained profit for the financial year	997	470
Other recognised gains and losses relating to the year	73	(536)
(Purchase of shares)/Issue of shares	(461)	90
Goodwill adjustment in respect of prior years' acquisitions	(340)	(19)
Goodwill on closure of operations written back to reserves	-	215
Net movement in shareholders' funds	269	220
Shareholders' funds at 31 December, 1997	11,557	11,337
SHAREHOLDERS' FUNDS AT 31 DECEMBER, 1998	11,826	11,557

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1998

	GROUP	
	1998	1997
	£000	£000
NET CASH INFLOW FROM OPERATING ACTIVITIES	5,907	4,903
RETURN ON INVESTMENT AND SERVICING OF FINANCE		
Interest received	216	172
Interest paid	(2,130)	(2,066)
Interest element of hire purchase payments	(48)	(78)
Preference dividend paid	(455)	(455)
NET CASH OUTFLOW FROM RETURN ON INVESTMENT AND SERVICING OF FINANCE	(2,417)	(2,427)
TAXATION		
UK and overseas corporation tax paid	(678)	(1,453)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	(1,072)	(648)
Sale of tangible fixed assets	194	620
	(878)	(28)
ACQUISITIONS AND DISPOSALS		
Purchase of businesses/subsidiaries	-	(565)
Net cash balance acquired with subsidiaries	30	-
	30	(565)
EQUITY DIVIDENDS PAID		
Dividends paid	(955)	(1,587)
MANAGEMENT OF LIQUID RESOURCES		
Movement in short term deposits	105	(1,268)
FINANCING		
(Purchase of shares)/Issue of shares	(461)	90
Increase in debt	855	15,185
NET CASH INFLOW FROM FINANCING	394	15,275
INCREASE IN CASH	1,508	12,850
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN FUNDS/(DEBT)		
Increase in cash	1,508	12,850
Increase in debt	(855)	(15,185)
Management of liquid resources	(105)	1,268
	548	(1,067)
New finance leases	(139)	(519)
Translation differences	221	(418)
MOVEMENT IN DEBT FOR YEAR	630	(2,004)
Net debt at beginning of year	(24,448)	(22,444)
Net debt at end of year	(23,818)	(24,448)

See note 22 for an analysis of certain of the items included above.

ACCOUNTING POLICIES

The significant accounting policies that have been adopted in the financial statements, which are presented under the historical cost basis of accounting, as modified by the revaluation of freehold property, are as set out below and comply with applicable accounting standards. The Company is an "overseas company" within the meaning of the Companies Act 1985. However, the Company has not taken advantage of all available exemptions and the financial statements have been prepared in accordance with the accounting and disclosure requirements of the Companies Act 1985.

BASIS OF CONSOLIDATION

The consolidated financial statements represent a consolidation of the audited accounts of The Quarto Group, Inc. and its subsidiaries, all of which have been made up to 31 December.

The results of subsidiaries acquired during the year and requiring to be acquisition accounted are included from the date on which control passes. On the acquisition of a business, fair values, reflecting conditions at the date of acquisition, are attributed to the net tangible assets. Where the fair value of the purchase consideration exceeds the values attributable to the Group's share of such net assets, the difference is treated as purchased goodwill and for accounting periods up to 31 December, 1997 this was written off directly to reserves in the year of acquisition. The Company has adopted FRS 10, the new accounting standard for goodwill, and will in future write off the cost of purchased goodwill over its useful economic life. In adopting FRS 10, the Company has transferred the balance on the goodwill reserve to the profit and loss account reserve and adjusted the comparative figures accordingly. Reorganisation and integration costs resulting from the acquisition are charged to the profit and loss account. The profit or loss on the disposal or discontinuation of a previously acquired business is calculated taking account of the attributable amount of purchased goodwill relating to that business.

In accordance with the exemptions allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

FOREIGN CURRENCY

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the respective balance sheet dates. Profit and loss accounts in foreign currencies are translated at average rates for the respective accounting periods. Exchange differences arising on the translation of the net assets and profit and loss accounts of non-UK companies together with exchange differences on related borrowings are accounted for through reserves. All other exchange differences are recorded as ordinary trading items.

DEPRECIATION

Depreciation is calculated to write off the cost less estimated residual value of fixed assets by annual instalments over their estimated economic lives at the following annual rates:

Long leasehold	: 2% straight line
Short leaseholds	: over the period of the lease
Plant, equipment and motor vehicles	: 10–25% straight line
Fixtures and fittings	: 15–20% straight line

No depreciation is provided on freehold properties because the Directors consider that the lives of these properties and their residual values (determined at the time of acquisition or subsequent valuation) are such that their depreciation is not material. Any impairment in the carrying value of fixed assets is charged against the revaluation reserve or the profit and loss account, as appropriate.

ACCOUNTING POLICIES

INVESTMENT IN ASSOCIATES

An associated undertaking (associate) is one in which the group has a long term equity interest, usually from 20% to 50%, and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

STOCKS AND WORK IN PROGRESS

Stocks and work in progress are valued at the lower of cost, including an appropriate portion of overheads, and net realisable value. Production costs (excluding unit print costs), including an appropriate portion of overheads, in respect of a book are written off over its estimated economic life (not more than three years) commencing from the date of first printing and are disclosed in the financial statements as work in progress.

DEFERRED TAXATION

Provision is made, using the liability method, for deferred taxation on all material timing differences which are expected to crystallise.

TURNOVER

Turnover represents the invoiced value of goods and services supplied to third parties excluding Value Added Tax.

COPYRIGHTS

Predominately the Group owns the copyright in its titles. No value is attributed to these rights.

LEASE AND HIRE PURCHASE CONTRACTS

Where assets are acquired under finance leases (including hire purchase contracts) the amount representing the outright purchase price of such assets is included in tangible fixed assets. Depreciation is provided in accordance with the accounting policy above. The capital element of future finance lease payments is included in creditors and the interest element is charged to the profit and loss account over the period of the lease in proportion to the capital element outstanding. Expenditure on operating leases is charged to the profit and loss account in the period to which it relates.

PENSIONS

Substantially all of the Group's pension costs relate to individual pension plans and are charged to the profit and loss account as they arise.

NOTES TO THE FINANCIAL STATEMENTS

	GROUP	
	1998	1997
	£000	£000
1 SEGMENTAL ANALYSIS		
GEOGRAPHICAL ANALYSIS OF TURNOVER BY DESTINATION		
United Kingdom	12,505	11,828
United States of America	42,034	46,074
Canada	1,734	1,326
Europe	14,761	11,544
Australasia and the Far East	6,071	8,614
Rest of the World	2,051	2,434
	79,156	81,820

	1998	1997	**1998**	1997	**1998**	1997
	£000	£000	**£000**	£000	**£000**	£000
CLASS OF BUSINESS						
Publishing	67,166	71,150	4,988	5,135	37,561	37,442
Publishing services	11,990	10,670	1,222	1,048	3,120	3,122
	79,156	81,820	6,210	6,183	40,681	40,564
Share of loss of associate			(20)	(34)		
Exceptional costs			(580)	(1,306)		
Net interest payable			(1,931)	(1,941)		
			3,679	2,902		

The group interest expense is arranged centrally and is not attributed to individual activities or geographical areas.

ANALYSIS BY GEOGRAPHICAL AREA OF ORIGIN

	1998	1997	**1998**	1997	**1998**	1997
	£000	£000	**£000**	£000	**£000**	£000
United Kingdom	34,516	32,903	2,952	2,208	6,917	7,192
United States of America	32,653	36,002	1,957	2,691	28,658	27,438
Other	11,987	12,915	1,301	1,284	5,106	5,934
	79,156	81,820	6,210	6,183	40,681	40,564

"Other" is not analysed further because the Directors consider that such disclosure would be prejudicial to the interests of the Company.

NOTES TO THE FINANCIAL STATEMENTS

	GROUP	
	1998	1997
	£000	£000
1 SEGMENTAL ANALYSIS (CONTINUED)		
The net operating assets can be reconciled to the consolidated balance sheet as follows:		
Net operating assets	40,681	40,564
Total bank loans and other borrowings	(29,173)	(29,918)
Cash at bank and in hand	5,355	5,470
Corporation tax, deferred tax and advance corporation tax	(1,909)	(1,831)
Dividends payable	(533)	(545)
Net assets	14,421	13,740
2 OPERATING PROFIT		
OPERATING PROFIT IS STATED AFTER CHARGING:		
Depreciation	1,101	1,129
Auditors' remuneration : audit	172	208
: other	10	9
Operating lease rentals in respect of:		
Plant and machinery	57	32
Other assets	1,105	1,149
EXCEPTIONAL ITEMS:		
Closure costs	580	1,091
Goodwill written back	-	215
	580	1,306

Included under auditors' remuneration is audit fees in respect of the Company, amounting to £38,000 [1997: £41,000]. The fees have been dealt with through the financial statements of Quarto Publishing plc.

Exceptional items comprise the quantifiable cost of the discontinuation of business at Broughton Hall. The exceptional items for 1997 comprise losses on the closure of operations of the Atlas Image Factory, Strange Matter and Packaged Goods.

A retained loss of £4,711,000 [1997: loss £952,000] has been dealt with in the accounts of the Company.

EMPLOYEES

STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS COMPRISE:		
Wages and salaries	12,128	12,170
Social security costs	995	969
Pension costs	337	314
	13,460	13,453

	1998	1997
	NUMBER	NUMBER
THE AVERAGE WEEKLY NUMBER OF PERSONS EMPLOYED BY THE GROUP DURING THE YEAR WAS:		
Publishing	404	402
Publishing services	107	111
Group administration	15	16
	526	529

NOTES TO THE FINANCIAL STATEMENTS

		GROUP	
		1998	1997
		£000	£000
2 OPERATING PROFIT (CONTINUED)			
DIRECTORS' REMUNERATION			
EMOLUMENTS:			
Fees to non-executive Directors		29	13
Executive Directors	– remuneration including benefits in kind in respect of motor vehicles and health insurance	678	758
	– pension contributions	72	73
	– compensation for loss of office	135	-
		914	844
The Directors' remuneration disclosed above included the following amounts paid in respect of the Chairman (also highest paid Director for 1997)			
Remuneration		190	190
Pension contributions		30	30
		220	220

The highest paid Director in 1998, H. Goldstein, received remuneration amounting to £238,000, including £135,000 for compensation of loss of office.

Details of Directors' share options are given in the Directors' report. During the year certain of the Directors maintained current accounts with the Company. The balance on these current accounts can be found under note 23 on page 46.

The remuneration of the Directors was as follows:

	SALARY/ FEES £000	BENEFITS £000	PENSION CONTRIBUTION £000	COMPENSATION FOR LOSS OF OFFICE £000	**1998 TOTAL £000**	1997 £000
L.F.Orbach	189	1	30	-	220	220
R.J.Morley	151	2	22	-	175	175
M.J.Mousley	102	1	15	-	118	118
G.Banks	27	4	2	-	33	73
G.Y.Tai	88	10	3	-	101	109
H. Goldstein	103	-	-	135	238	136
E. de Bellaigue	8	-	-	-	8	13
P. Campbell	13	-	-	-	13	-
P. Waine	8	-	-	-	8	-
	689	18	72	135	914	844

NOTES TO THE FINANCIAL STATEMENTS

	GROUP	
	1998	1997
	£000	£000
3 NET INTEREST PAYABLE AND SIMILAR CHARGES		
Interest payable:		
On bank overdrafts and other loans repayable within 5 years by instalments	2,070	1,985
On loans repayable after more than 5 years	28	48
Hire purchase	48	78
	2,146	2,111
Interest receivable	(215)	(170)
	1,931	1,941
4 TAXATION		
On profit for the year:		
United Kingdom corporation tax at 31% [1997 31.5%]	736	367
Deferred taxation – UK	(34)	(12)
– Overseas	(6)	(28)
Overseas tax	153	309
	849	636

The Group's low taxation charge reflects the benefit of tax relief on the write-off of intangible assets in the US and low tax rates in Hong Kong and Switzerland.

5 DIVIDENDS		
Equity:Ordinary: Interim paid of 2.2p per share		
[1997: 2.2p per share]	411	411
Ordinary: Final proposed of 2.3p per share		
[1997: 2.3p per share]	412	430
	823	841
Non-equity: Preference	455	455
	1,278	1,296

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on 18,644,484 shares [1997: 18,655,306] and earnings, after minority interests and preference dividends of £1,820,000 [1997: £1,311,000].

Fully diluted earnings per share is not disclosed because there is no dilution.

The calculation of adjusted earnings per share is based on earnings of £2,400,000 [1997: £2,459,000] calculated as follows:

	1998	1997
	£000	£000
Earnings after minority interests and preference dividends	1,820	1,311
Exceptional items	580	1,306
Taxation credit on exceptional items	-	(158)
Earnings after minority interests before exceptional items	2,400	2,459

NOTES TO THE FINANCIAL STATEMENTS

	GROUP				
	FREEHOLD PROPERTY £000	LEASEHOLD PROPERTY £000	PLANT EQUIPMENT AND MOTOR VEHICLES £000	FIXTURES AND FITTINGS £000	**TOTAL £000**
7 TANGIBLE FIXED ASSETS					
Group					
Cost or valuation:					
At 1 January, 1998	2,919	835	5,451	946	10,151
Exchange differences	29	(6)	(21)	5	7
Additions	-	172	806	273	1,251
Disposals	-	-	(737)	(57)	(794)
At 31 December, 1998	2,948	1,001	5,499	1,167	10,615
Depreciation:					
At 1 January, 1998	30	237	2,766	579	3,612
Exchange differences	-	(2)	(7)	2	(7)
Charge for the year	-	85	841	175	1,101
Disposals	-	-	(578)	(32)	(610)
At 31 December, 1998	30	320	3,022	724	4,096
Net book value:					
At 31 December, 1998	2,918	681	2,477	443	6,519
At 31 December, 1997	2,889	598	2,685	367	6,539
Cost or valuation at 31 December, 1998 is represented by:					
Surplus on valuation	1,018	-	-	-	1,018
Cost	1,930	1,001	5,499	1,167	9,597
	2,948	1,001	5,499	1,167	10,615

The net book value of plant, equipment and motor vehicles included £446,000 [1997: £894,000] in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was £201,000 [1997: £203,000]. *Included in leasehold property at cost is £340,000 [1997: £344,000] in respect of a long leasehold property. The net book value at 31 December, 1998 was £299,000 [1997: £311,000]. The principal freehold property in the UK, with a historic cost of £382,000, was revalued on the basis of an open market value for existing use at 31 December, 1989 by Conway Kersh, Professional Valuers.* The valuation was £1.7 million but the Directors ascribed a value of £1.4 million, on the grounds of prudence. The valuation was in accordance with RICS Statements of Asset Valuation Practice and Guidance Notes.

As noted in the Accounting Policies no depreciation is provided on freehold property.

	GROUP	COMPANY		
	INVESTMENT IN ASSOCIATE £000	SHARES AT COST £000	LOANS £000	TOTAL £000
8 FIXED ASSET INVESTMENT				
At 1 January, 1998	220	8,806	11,033	19,839
Share of retained losses	(20)	-	(4,711)	(4,711)
Amounts written off	-	-	(295)	(295)
Reduction on associate becoming a subsidiary	(200)	-	-	-
At 31 December, 1998	-	8,806	6,027	14,833

In 1997, investment in associates of £220,000 comprises cost of shares, less goodwill written off on acquisition of £927,000, less the Group's share of post-acquisition losses of £40,000. The Company has the following principal trading subsidiaries (*Directly held by The Quarto Group, Inc.), all of which operate in their country of incorporation.

Quarto Publishing plc	England 1 April, 1976	100,000 shares of £1 each	100*	Publishing
Quarto Inc.	Delaware, USA 16 October, 1986	60 shares of no par value	100*	Publishing
Western Screen and Sign Limited	England 24 November, 1961	1,500 shares of £1 each	100*	Publishing Services
Quarto Magazines Limited	England 20 May, 1986	1,000 shares of £1 each	100	Publishing
Regent Publishing Services Limited	Hong Kong 23 October, 1985	1,000 shares of HK$10 each	75	Publishing Services
Apple Press Limited	England 5 June, 1984	100 shares of £1 each	100	Publishing
Quarto Australia Pty Ltd.	Australia 14 September, 1981	8 redeemable preference shares of A$1 each and 103 ordinary shares of A$1 each	100*	Publishing
AP Screenprinters Limited	England 30 September, 1980	1,000 shares of £1 each	100	Publishing Services
RotoVision S.A.	Switzerland 18 July, 1977	1,500 shares of SFr500 each	100*	Publishing
Broughton Hall Inc.	Delaware, USA 16 March, 1989	100 shares of US$1 each	100	Publishing
Rockport Publishers Inc.	Massachusetts, USA 4 December, 1985	4,000 shares of no par value	100	Publishing
Book Sales Inc.	Delaware, USA 13 December, 1972	85 shares of no par value	80	Publishing
Quarto Children's Books Limited	England 6 January, 1976	2 shares of £1 each	100	Publishing
Scafa-Tornabene Art Publishing Co., Inc.	Delaware, USA 29 June, 1987	1,210 shares of no par value	100	Publishing
Front Line Graphics, Inc.	Delaware, USA 29 April, 1994	1,000 shares of US$1 each	100	Publishing
Walter Foster Publishing, Inc	Delaware, USA 10 February, 1988	19,625 shares of US$0.01 each	100	Publishing
Design Eye Holdings Limited	England 22 June, 1992	200 shares of £1 each	75*	Publishing

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		COMPANY	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
9 STOCKS AND WORK IN PROGRESS				
Finished goods	15,448	14,467	-	-
Work in progress	14,682	13,543	-	-
Raw materials	611	934	-	-
Less: Payments on account	(747)	(1,150)	-	-
	29,994	27,794	-	-
10 DEBTORS				
Trade debtors	26,790	28,673	-	-
Amounts due from subsidiaries	-	-	-	365
Prepayments and accrued income	2,215	2,022	-	-
Other debtors	409	1,055	-	-
Corporation tax and advance corporation tax recoverable	103	332	-	-
	29,517	32,082	-	365

Other debtors in 1997 included £792,000 which was interest bearing.

11 CURRENT ASSET INVESTMENTS				
Listed investments at cost (market value £1,000) [1997: £1,000] Listed other than on The International Stock Exchange in London	1	1	-	-
12 CASH AND DEPOSITS				
Cash at bank	4,201	4,202	-	-
Short term deposits	1,154	1,268	-	-
	5,355	5,470	-	-
13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank overdrafts	980	2,461	-	-
Current loan instalments	171	1,075	-	-
Hire purchase creditors	207	341	-	-
Total borrowings	1,358	3,877	-	-
Trade creditors	20,769	21,440	-	-
Other creditors including taxation and social security:				
Corporation tax	664	548	-	-
Advance corporation tax payable	160	291	-	181
Dividend payable	412	430	412	430
Dividend payable to minority shareholders	121	115	-	-
Social security	294	167	-	-
Other creditors	614	909	-	-
Accruals and deferred income	2,889	2,572	-	-
	27,281	30,349	412	611

NOTES TO THE FINANCIAL STATEMENTS

	GROUP 1998 £000	GROUP 1997 £000	COMPANY 1998 £000	COMPANY 1997 £000
14 CREDITORS: Amounts falling due after more than one year				
Bank and other loans	27,699	25,808	-	-
Hire purchase liabilities	116	233	-	-
Total borrowings	27,815	26,041	-	-
Other creditors	681	652	-	-
	28,496	26,693	-	-
Total borrowings are repayable as follows:				
Bank loans and overdrafts:				
In one year or less, or on demand	1,151	3,536	-	-
Between one and two years	188	217	-	-
Between two and five years	27,511	25,518	-	-
In five years or more	-	73	-	-
	28,850	29,344	-	-
Other borrowings (hire purchase liabilities):				
In one year or less, or on demand	207	341	-	-
Between one and two years	107	176	-	-
Between two and five years	9	57	-	-
	323	574	-	-
Total loans and other borrowings:				
In one year or less, or on demand	1,358	3,877	-	-
Between one and two years	295	393	-	-
Between two and five years	27,520	25,575	-	-
In five years or more	-	73	-	-
	29,173	29,918	-	-

The above borrowings carry interest at commercial rates ranging from 1.2 % to 7.5 %. The total amount repayable in five years or more in 1997 relates to a bank loan repayable by instalments secured on freehold premises.

NOTES TO THE FINANCIAL STATEMENTS

	GROUP			
	AMOUNT PROVIDED		POTENTIAL LIABILITY	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
15 DEFERRED TAXATION				
Deferred taxation provided in the financial statements is as follows:				
Excess of capital allowances over depreciation	149	166	149	166
Other-UK	(107)	(142)	(107)	(142)
Other-overseas	1,146	1,300	1,504	1,566
Revaluation of freehold property	-	-	316	316
	1,188	1,324	1,862	1,906

The movement on the provision for deferred taxation is as follows:

	£000
Provision at 1 January, 1998	1,324
Exchange difference	(91)
Acquisitions	(5)
Transfer to profit and loss account	(40)
Provision at 31 December, 1998	1,188

16 SHARE CAPITAL

Authorised:

28,000,000 [1997: 28,000,000] shares of common stock of par value US$0.10 each ("shares of common stock") with an aggregate nominal value of US$2,800,000 [1997: US$2,800,000].

5,212,587 [1997:5,212,587] 8.75p (net) convertible cumulative redeemable shares of preferred stock of US$0.10 each ("shares of preferred stock") with an aggregate nominal value of US$521,258 [1997:US$521,258].

	1998	1997
	£000	£000
Equity share capital		
Allotted, called up and fully paid:		
18,675,306 shares of common stock of par value US$0.10 each [1997: 18,675,306]	1,063	1,063
Non-equity share capital		
Allotted, called up and fully paid:		
5,204,024 shares of preferred stock of US$0.10 each [1997: 5,204,024]	278	278
	1,341	1,341

NOTES TO THE FINANCIAL STATEMENTS

At 31 December, 1998, the following options over shares of common stock were outstanding under the Company's Executive Share Option Schemes.

NUMBER OF SHARES	DATE EXERCISABLE	OPTION PRICE PER SHARE
1,000	12 April, 1992 – 11 April, 1999	£1.73264
5,000	14 November, 1992 – 13 November, 1999	£1.5232
50,000	10 April, 1996 – 9 April, 2003	£1.30424
50,000	26 October, 1997 – 25 October, 2004	£2.82
78,000	31 March, 2001 – 30 March, 2008	£0.685
5,000	18 August, 2001 – 17 August, 2008	£0.84

The shares of preferred stock are convertible into shares of common stock on 1 June, 1990 and annually thereafter at a rate of 60 shares of common stock for every 100 shares of preferred stock. The Company may at any time purchase shares of preferred stock in accordance with the rights attaching to such shares. The Company is obliged to redeem all outstanding shares of preferred stock in 2005 at a price of £1. The holders of the preferred stock are not entitled to vote at any meeting of shareholders unless their dividend payment is more than six months overdue or the meeting is being held to consider a resolution for liquidation, dissolution, winding up or the appointment of a receiver. On liquidation, dissolution or other winding up the holders of the preferred stock are entitled to be paid out of the available assets of the Company the sum of £1 per share and the amount of all accrued dividends payable in priority to any payment being made to the holders of common stock. There are no special rights to dividends in respect of holders of common stock.

	GROUP		COMPANY	
	1998 £000	1997 £000	**1998 £000**	1997 £000
17 TREASURY STOCK				
At 1 January, 1998	-	-	-	-
Purchase of 750,000 shares				
of common stock of par value US $0.10 each	461	-	461	-
At 31 December, 1998	461	-	461	-
18 RESERVES - PAID IN SURPLUS				
At 1 January, 1998	23,891	23,805	23,891	23,805
On shares issued during year:				
Exercise of share options	-	86	-	86
At 31 December, 1998	23,891	23,891	23,891	23,891

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		COMPANY	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
19 RESERVES – PROFIT AND LOSS ACCOUNT				
At 1 January, 1998	(14,693)	(14,823)	(5,639)	(4,687)
Retained profit for the year	997	470	(4,711)	(952)
Goodwill adjustment in respect of prior years' acquisitions	(340)	(19)	-	-
Goodwill relating to closure of operations written back to reserves	-	215	-	-
Difference on translation of net assets and profit and loss accounts of non-UK companies	73	(536)	-	-
At 31 December, 1998	(13,963)	(14,693)	(10,350)	(5,639)
This is analysed as follows:				
Profit and loss account	15,688	14,618	(10,350)	(5,639)
Goodwill	(29,651)	(29,311)	-	-
	(13,963)	(14,693)	(10,350)	(5,639)

NOTES TO THE FINANCIAL STATEMENTS

	GROUP			
	LAND AND BUILDINGS 1998 £000	**OTHER 1998 £000**	LAND AND BUILDINGS 1997 £000	OTHER 1997 £000
20 FINANCIAL COMMITMENTS				
At 31 December, 1998, the Group had commitments to make payments under operating leases during the next year as follows for leases expiring:				
Within one year	114	210	31	213
Between two and five years	481	220	953	241
Over five years	460	-	192	-
	1,055	430	1,176	454

The land and buildings leases are subject to rent reviews.

Capital commitments at the end of the year for which no provision had been made amounted to £350,000 [1997: £nil]. This expenditure was authorised and contracted for.

21 CONTINGENT COMMITMENTS AND LIABILITIES

On 28 February, 1996, the Group acquired Walter Foster Publishing Inc. Of the purchase price US $ 966,242 was settled by the issue of promissory notes. The principal values of the promissory notes is adjustable upwards to reflect the increase, if any, in the value (in US dollars) of The Quarto Group Inc's common stock over US $ 3.83. As at 16 February, 1999 the value of the common stock was US $0.96 and accordingly no adjustment has been made in these financial statements.

Quarto Inc has an agreement to purchase the common stock from the minority shareholder in Book Sales Inc at the end of a five year period, which was October 1996. The purchase price shall be based on the shareholders' investment in Book Sales Inc, adjusted for subsequent earnings. At 31 December, 1998 there was a potential liability, based on Book Sales Inc's financial statements, of approximately US $1,976,000. No provision has been made because the minority shareholder has not exercised their option. At 31 December, 1998 the minority interest in the consolidated financial statements of The Quarto Group Inc was US $1,237,000.

The Quarto Group Inc. has issued guarantees in respect of £1,602,000 of overdrafts of subsidiaries [1997: £2,028,000] and bank loans of £27,198,000 [1997: £25,748,000].

The Group has also issued guarantees in respect of £323,000 of hire purchase creditors of subsidiaries [1997: £574,000].

There are other contingent liabilities, arising in the ordinary course of business, in respect of litigation, which the Directors believe will not have a significant effect on the financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

22 NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT	GROUP 1998 £000	GROUP 1997 £000
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOWS FROM OPERATING ACTIVITIES		
Operating profit	6,210	6,183
Exceptional costs	(36)	(1,091)
Depreciation charge	1,101	1,129
Profit on sale of fixed assets	(34)	(31)
Increase in stocks and work in progress	(2,204)	(1,182)
(Decrease)/Increase in creditors	(1,083)	4,240
Decrease/(Increase) in debtors	1,953	(4,345)
Net cash inflow from operating activities	5,907	4,903

ANALYSIS OF NET DEBT	AS AT 1 JAN 98 £000	CASH FLOW £000	EXCHANGE DIFFERENCE £000	NEW HIRE PURCHASE £000	AS AT 31 DEC 98 £000
Cash at bank and in hand	4,202	(1)	-	-	4,201
Bank overdrafts < 1 year	(2,461)	1,510	(29)	-	(980)
	1,741	1,509	(29)	-	3,221
HP creditors	(574)	390	-	(139)	(323)
Current loan instalments < 1 year	(1,075)	904	-	-	(171)
Bank loans > 1 year	(25,541)	(2,187)	259	-	(27,469)
Mortgages	(267)	37	-	-	(230)
	(27,457)	(856)	259	(139)	(28,193)
Management of liquid resources	1,268	(105)	(9)	-	1,154
Net Debt	(24,448)	548	221	(139)	(23,818)

23 RELATED PARTY TRANSACTIONS

During the year L. F. Orbach and R. J. Morley maintained current accounts with the Group. The balances on these accounts were less than £5,000 throughout the year.

HISTORICAL COST FIVE-YEAR SUMMARY

	GROUP				
	1994 £000	1995 £000	1996 £000	1997 £000	**1998 £000**
PROFIT AND LOSS ACCOUNT					
Turnover	57,927	66,469	80,619	81,820	79,156
Operating profit before exceptional charges	6,949	7,854	9,140	6,149	6,190
Net interest	(669)	(840)	(1,329)	(1,941)	(1,931)
Profit before exceptional charges and taxation	6,280	7,014	7,811	4,208	4,259
LOSS ON CLOSURE OF OPERATIONS	-	-	-	(1,306)	(580)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6,280	7,014	7,811	2,902	3,679
Taxation	(1,741)	(1,747)	(1,906)	(636)	(849)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	4,539	5,267	5,905	2,266	2,830
Minority interests	(258)	(241)	(528)	(500)	(555)
PROFIT FOR THE FINANCIAL YEAR	4,281	5,026	5,377	1,766	2,275
Dividends	(1,614)	(1,800)	(1,944)	(1,296)	(1,278)
RETAINED PROFIT	2,667	3,226	3,433	470	997
EARNINGS PER SHARE					
Before exceptional charges	20.8p	24.8p	26.5p	13.2p	12.9p
After exceptional charges	20.8p	24.8p	26.5p	7.0p	9.8p
DIVIDENDS PER SHARE	6.3p	7.25p	8.0p	4.5p	4.5p
BALANCE SHEET					
Fixed assets	5,736	6,787	7,392	6,759	6,519
Other net assets	19,415	23,809	28,353	31,429	31,720
	25,151	30,596	35,745	38,188	38,239
NET BORROWINGS	(11,684)	(12,497)	(22,444)	(24,448)	(23,818)
	13,467	18,099	13,301	13,740	14,421
CASH FLOW					
Net cash inflow from operating activities			1,807	4,903	5,907
Return on investment and servicing of finance			(1,691)	(2,427)	(2,417)
Taxation			(996)	(1,453)	(678)
Capital expenditure and financial investment			(1,009)	(28)	(878)
Acquisition and disposals			(7,552)	(565)	30
Equity dividends paid			(1,386)	(1,587)	(955)
Other			880	(847)	(379)
Movement in (debt)/funds for year			(9,947)	(2,004)	630
Net debt at beginning of year			(12,497)	(22,444)	(24,448)
Net debt at end of year			(22,444)	(24,448)	(23,818)

The summary cash flow information in respect of 1994 and 1995 is not readily available in the manner required by the accounting standard, FRS1, Cash Flow Statements.